Australian psi
PERFORMANCE OF SERVICES INDEX®

AiGROUP

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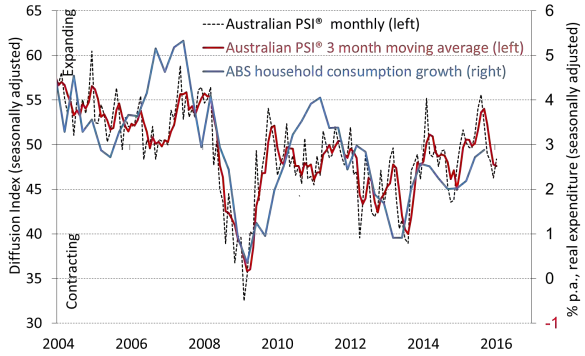
SERVICES SECTORS: SLOW START TO 2016

Australian PSI®	USA Flash PSI	Eurozone Flash PSI	UK Markit PSI	Japan Nikkei PSI	China Caixin PSI
Jan 2016: 48.4 ↑	Jan 2016: **53.7** ↓	Jan 2016: **53.6** ↓	Dec 2015: **55.5** ↓	Dec 2015: **51.5** ↓	Dec 2015: **50.2** ↓

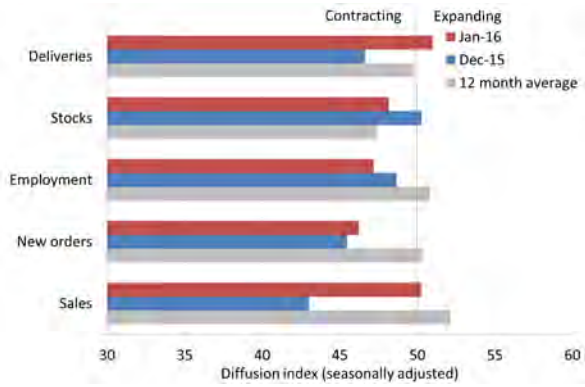
KEY FINDINGS

- The Australian Industry Group Australian Performance of Services Index **(Australian PSI®)** began 2016 on a low note, with an Index result of 48.4 points in January (results below 50 points indicate contraction, with lower numbers indicating a larger contraction).
- This was the fourth consecutive month of contraction for the **Australian PSI®**, after a promising but short-lived period of expansion through the middle of 2015. This disappointing deceleration reflects the fragile and fragmented nature of economic growth at present.
- Of the five of activity sub-indexes in the **Australian PSI®**, only supplier deliveries (51 points) was above 50 points and showing expansion in January. Sales were stable at 50.2 points.
- Just two of the nine services sub-sectors in the **Australian PSI®** grew in January; health and community services plus personal and recreational services. Health and community services remains the strongest sector of growth in the **Australian PSI®** in January 2016. Hospitality (hotels, cafes and restaurants) was stable for a second month, after growing for four months.
- The wages sub-index in the **Australian PSI®** fell to 49.5 points in January. This was the lowest result for this sub-index since June 2009 and the first time since 2009 it has fallen into contraction (below 50 points). Selling prices stabilised (50.3 points) after falling in November and December. Input pricing remains relatively elevated, presumably due to the impact of the low dollar on imported inputs for retailers, wholesalers and others.
- Pockets of growth in the **Australian PSI®** continue to be limited to consumer-oriented sub-sectors other than retail and wholesale trade. In the business-to-business sub-sectors, activity is patchy outside the sub-sectors benefiting directly from capital city housing activity.



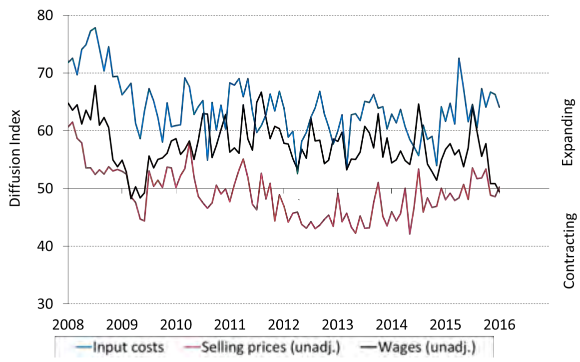
ACTIVITY SUB-INDEXES

- Sales stabilised across the services sectors in January (50.2 points), after a disappointing contraction at the end to 2015. The sales sub-index averaged 52.2 points for all of 2015.
- New orders contracted for a fourth month in January (46.2 points). New orders have been tracking lower since August, which suggests sales are likely stay subdued into 2016.
- Supplier deliveries grew mildly in January (51.0 points) after shrinking for a second month in December.
- Stock levels shrank again in January (48.1 points), after reducing for much of 2015.
- The **Australian PSI®** employment sub-index remained below 50 points and indicating mild contraction, at 47.2 points in January. Services employment expanded, on average, through 2015 (51.2 points average for the year) but has been indicating contraction since September.
- Capacity utilisation across the services sector declined to 74.4 per cent of available capacity being utilised in January, a touch below the average of 75.2 per cent of capacity in 2015.



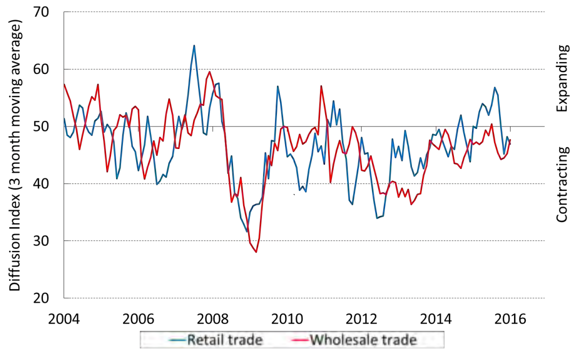
PRICES SUB-INDEXES

- Input pricing remains relatively elevated, with the input costs sub-index falling 2.2 points to 64.1 points in January. This upward pricing pressure for inputs largely reflects the impact of the low Australian dollar on imported inputs for retailers, wholesalers and others.
- The wages sub-index in the **Australian PSI®** fell to 49.5 points in January. This was the lowest result for this sub-index since June 2009 and the first time since 2009 it has fallen into contraction (below 50 points). This is in line with recent ABS wage price index (WPI) data, which show that private sector wages increased by only 2.1% p.a. in Q3 2015, their slowest annual rate of growth since the WPI data series began in 1998.
- Selling prices stabilised in January (50.3 points), after falling in November and December. Reflecting low CPI growth in 2015, Selling prices in the Australian PSI® were remarkably stable, on average, over 2015 (50.0 points average for the year), but weakened in the last two months. Retail and wholesale respondents reported sporadic but disruptive pre-Christmas price discounting.



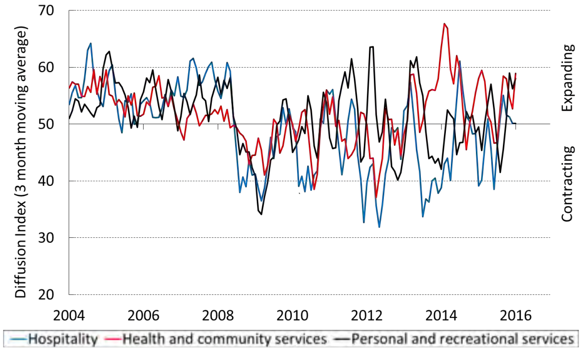
RETAIL TRADE; WHOLESALE TRADE *

- The **retail trade** sub-sector contracted (47.7 points) in January for fourth consecutive month. Retailers expanded, on average, over 2015 (an average of 52.1 points) but finished the year on a low note. The lower Australian dollar has been a two-edged sword for retailers, with more consumers shopping locally again, but higher wholesale prices for imported products that have proved difficult to pass on in a low-inflation and highly competitive environment.
- The **wholesale trade** sub-sector contracted again in January but at a slower rate than December, with the sub-sector's index up 2.5 points to 47.7 points. This sub-sector contracted or was stable throughout 2015, despite some better mid-year months for retailers.



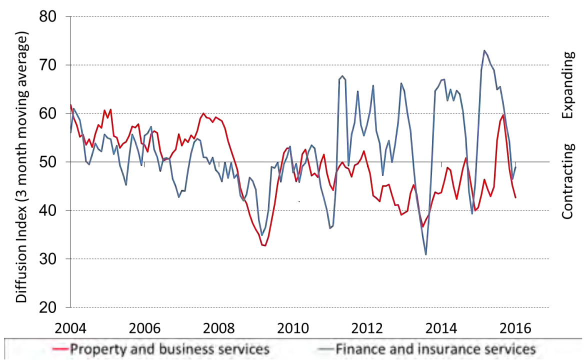
HOSPITALITY; HEALTH SERVICES; RECREATIONAL SERVICES *

- The **accommodation, cafes and restaurants** ('hospitality') sub-sector was stable for a second month in January, with an index result of 50.1 points. This sub-sector strengthened through the latter half of 2015, with stable or expanding conditions since August. The lower Australian dollar is encouraging stronger inbound tourism and more Australians to take their holidays locally, both of which are benefitting this category in its traditional summer peak.
- The **personal and recreational services** sub-sector also strengthened through the last quarter of 2015, with the sub-sector's index up 1.9 points to 58.1 points in January. This sub-sector is benefiting from a similar trading environment to the hospitality sector, with consumers preferring to spend on local services instead of goods (e.g. from retailers).
- The giant **health and community services** sub-sector expanded at a faster pace in January, with its index up by 6.2 points to 58.9 points. This sub-sector expanded, on average, in 2015, with an average index of 53.8 points over the year. This sub-sector includes health, education, welfare and community services. It is the source of much of the recent jobs growth. Over 12% of Australian workers are employed in health and community services. Another 8% are employed in education (ABS labour force data, November 2015).



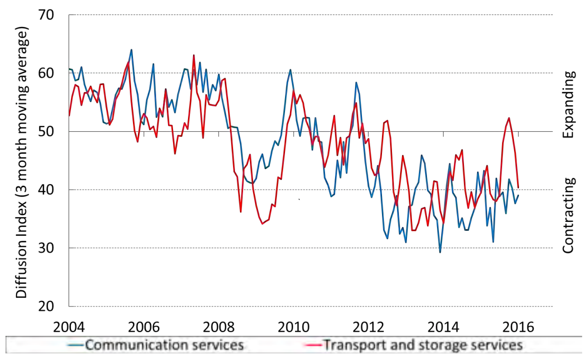
PROPERTY AND BUSINESS SERVICES; FINANCE SERVICES *

- The **property and business services** sub-sector's index dropped a further 2.4 points to 42.7 points in January 2016, its lowest result since January 2015. This sub-sector had a good run of expansion in the third quarter of 2015, but conditions deteriorated in the final months of 2015. This sub-sector employs around 10% of Australia's total workforce.
- The **finance and insurance** sub-sector (including banking, insurance, superannuation and financial advisory services) faltered in December (46.5 points) for the first time in 2015, but moved closer to stabilising again in January 2016 (49 points). Until December, this sub-sector had performed strongly through 2015 and had expanded in most months since 2011.



COMMUNICATION SERVICES; TRANSPORT SERVICES *

- **Communications** was the weakest services sub-sector in January 2016, with an index result of 39.0 points. It has been in contraction since December 2011. Falling prices plus cautious investment by the public sector and private businesses means lower spending (in nominal terms at least) on IT, communications and related services.
- The **transport and storage services** sub-sector also began 2016 with a further deterioration in conditions (40.4 points in January) after three relatively stable months from September to November. Respondents to the **Australian PSI®** from this sub-sector reported that January was even quieter than usual this year, with more construction, engineering, wholesale and other client businesses closed or working reduced hours for the summer. Drought might also be reducing demand for freight services from agricultural and food processing businesses.



Seasonally adjusted index	Index this month	Change from last month	12 month average	Seasonally adjusted index	Index this month	Change from last month	12 month average
Australian PSI®	**48.4**	**+2.1**	**50.5**	Supplier Deliveries	51.0	+4.4	49.7
Sales	50.2	+7.2	52.1	Input Prices	64.1	-2.2	65.1
New Orders	46.2	+0.8	50.3	Selling Prices **	50.3	+1.7	50.2
Employment	47.2	-1.5	50.8	Average Wages **	49.5	-1.4	55.8
Stocks	48.1	-2.1	47.4	Capacity utilisation **	74.4	-2.5	75.0

* All sub-sector indexes in the **Australian PSI®** are reported as three month moving averages (3mma), so as to better identify the trends in these volatile monthly data. ** Unadjusted.

What is the Australian PSI®? The Australian Industry Group Australian Performance of Services Index (Australian PSI®) is a seasonally adjusted national composite index based on the diffusion indexes for sales, orders/new business, deliveries, inventories and employment with varying weights. An Australian PSI® reading above 50 points indicates services activity is generally expanding; below 50, that it is declining. The distance from 50 is indicative of the strength of the expansion or decline. For further economic analysis and information from the Australian Industry Group, visit http://www.aigroup.com.au/economics. *For further information on international PMI data, visit http://www.markiteconomics.com or http://www.cipsa.com.au.